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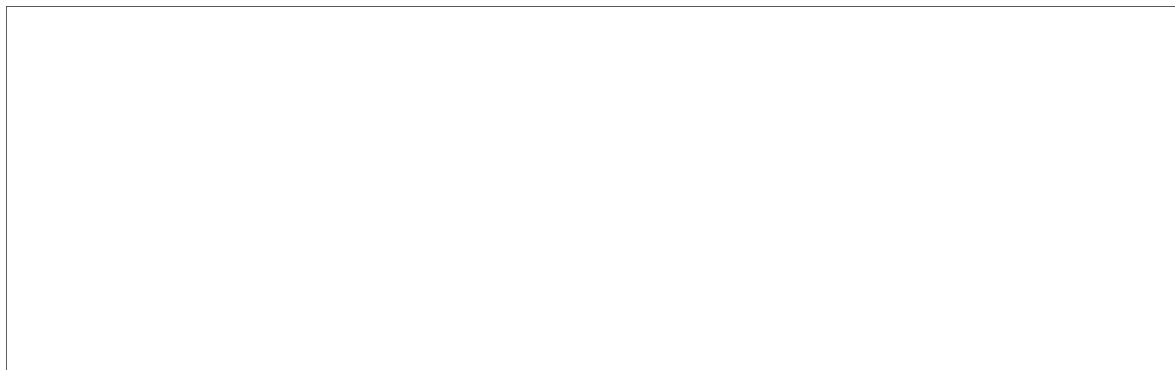
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2. Comment on inclusion of Khrushchev in Soviet delegation to Geneva:

The decision for Khrushchev to attend the Geneva conference may have sprung from concern that without his presence the western powers would underrate the importance of the conference and be unwilling to commit themselves on important issues, feeling that in Bulganin they were not dealing with the actual "summit" of Soviet power. Bulganin may have had this in mind when he said to reporters at the French embassy Bastille Day party that the make-up of the Soviet delegation means "that this will be a parley at the very summit!"

The presence of Khrushchev along with Bulganin and Molotov will enable the Soviet delegation to make "on the spot" decisions.

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3. Soviet central committee decisions suggest role of industry in Sixth Five-Year Plan:

The decisions of the central committee of the Soviet Communist Party indicate a continuation of the economic policy set forth in the February 1955 budget, according to incomplete Soviet radio broadcasts. That budget emphasized the rapid growth of heavy industry, a high level of military preparedness, and increasing concern with agricultural output.

The central committee re-emphasized the primacy of heavy industry as the basis for all economic development and announced that the total industrial production goal of the Fifth Five-Year Plan (1951-1955) was fulfilled on 1 May 1955--eight months ahead of schedule.

The Sixth Five-Year Plan (1956-1960), which will be announced at the 20th Party Congress beginning on 14 February 1956, will apparently be compiled in accord with these decisions of the central committee. It will probably re-emphasize utilization of the most modern equipment for greater

mechanization, automation, and specialization in order to solve the chronic problems of high production costs and lagging labor productivity. The decisions strongly suggest new pressure to meet plans, especially those for technological improvements and revision of wage rates.

These decisions also indicate that the USSR will continue to stress the rapid expansion of the metallurgical (especially aluminum), fuel, chemical, electric power, and other basic industries in the Sixth Five-Year Plan.

The reduction in the personnel strength of the administrative apparatus since Stalin's death and the removal of some administrative offices from Moscow or other population centers to the geographic areas in which their subordinate economic enterprises are located will continue. The expansion of the authority of supraministerial administrative bodies such as the recently formed Committee on Labor and Wages, will continue as a part of the effort to reduce administrative overhead and increase industrial efficiency.

The decisions also restate the policy of moving the industrial center of the USSR eastward and again order closer supervision by local party organizations of economic enterprises located within their jurisdiction.

Prepared by ORR

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SOUTHEAST ASIA

4. Malayan government to issue amnesty for terrorists:

Liberation Party, according to the American consul in Kuala Lumpur.

The amnesty will permit terrorists wishing to leave the country to do so and the remainder to return to

normal life after interrogation and "proof of loyalty to Malaya." Should any high-ranking Communists accept the amnesty, they would be kept indefinitely in detention, according to the British director of operations.

Malayan Communist posters found in Singapore state that the Communist offer for a negotiated peace is still open and they imply that the Communists are amenable to any British countersuggestion to end terrorism.

Comment: In view of increasing Communist peace propaganda in Malaya, a substantial number of terrorists may be ordered to "accept" the amnesty terms. The Communists' emergence from the jungle will accelerate their already successful program of subversion in Malaya and Singapore.

British authorities recognize this danger, but their refusal to offer an amnesty--favored by the leading political organization in Malaya--would only stimulate anti-British feeling which, in turn, could be effectively exploited by the Communists. In view of this, British administrators consider it essential to adopt a more liberal policy toward the insurgents.

5. Comment on Indonesian government plan to solve army-cabinet impasse:

The resignation of pro-Communist Defense Minister Iwa from the Indonesian cabinet is only the first step in a government plan to solve army-cabinet difficulties, according to an Indonesian news agency. The government is also willing to reinstate Colonel Lubis as deputy chief of staff, as demanded by the army, but will ask the army to accept General Utoyo as chief of staff. Utoyo will then be honorably discharged. The chances are that the army will accept the government's proposals.

Prime Minister Ali has taken over the defense portfolio, but he may have considerable difficulty in preserving his nine-party coalition cabinet. One party has already

decided to urge the government to return its mandate, and another will hold an executive council meeting next week to decide whether to withdraw from the cabinet.

Although the Ali government would not necessarily be overthrown as a result of the defection of these two minor parties, it would be more dependent than ever on Communist parliamentary support for survival.

SOUTH ASIA

6. Afghanistan will not abandon Pushtoonistan campaign:

Afghan king Zahir Shah told the Pakistani ambassador on 12 July that his government was willing to make amends for the 30 March riots in Kabul but that it could not abandon either its interest in the Pushtoon tribesmen or its propaganda advocating their independence. The king said, however, that any propaganda should be "dignified" and should not breed hatred and violence.

The king also said that he is a constitutional monarch and is therefore unable to take direct action in the present Afghan-Pakistani dispute. He added, however, that he would talk to Prime Minister Daud about the Pakistani ambassador's long recital of Daud's "misdeeds of commission and omission."

Comment: The king's remarks suggest that he would be willing to work toward an agreement whereby Daud's activities were curbed and Afghan propaganda toned down in return for a reopening of Pakistani consulates in Afghanistan.

The king's "most courteous and gracious" manner throughout the interview and some statements he made during it suggest that he wishes to keep the door open for further negotiation.

WESTERN EUROPE

7. Austrians considering Soviet proposal for civil air link:

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Austrian civil aviation officers have confirmed that the Soviet embassy has approached them for the establishment of regular air services between Austria and the USSR within several months.

According to Austrian press reports, Soviet officials mentioned the possibility of a connecting route via Hungary with Soviet planes flying from Moscow to Budapest and Austrian planes from Vienna to Budapest. The Austrian Civil Aviation Department reportedly replied that the prerequisite for such a plan would be an Austro-Soviet bilateral air transport agreement. The Austrians hope to capitalize on their country's geographic position to make it a vital pivot in East-West air transportation.

Comment: A People's Party group now studying plans for a private airline is hoping to attract American capital and is reported worried that American investors may be discouraged by plans to open services with the Soviet Union and Satellite areas.